AR61

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University of Alberta
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Edmonton, Alberta T6G 2R6

1997 Annual Report

PARTON Capital Inc.

Real Estate Developments

"KIRKTON MANOR HOUSE"
Lower Mount Royal, Calgary

Quality To Appreciate

MESSAGE TO SHAREHOLDERS

The fiscal year ended February 28, 1998, has been a year of change as the Company made its transition into real estate development. Late in the year the Company entered into two agreements to acquire properties in Calgary, Alberta, for residential condominium developments. One agreement was the acquisition of land for $220,000, in lower Mount Royal to develop 12 luxury condominium suites. The second acquisition was two apartment buildings of 57 rental suites total, for a purchase price of $3,296,233. The Company intends renovation, and conversion to condominium title for resale in the buoyant Calgary market. The Company has secured the necessary financing to complete the purchase with a closing date of May 1st, 1998.

In order to assist in financing its real estate activities, the Company has sold a portion of its investment in Canyon Creek Food Company Ltd. and realized a gain of $309,012.

With its entrance into the real estate development business, the Company has restructured its management with the appointment of Mr. R.S. Girardau, P.Eng., F.I.Struct.E., as President. Mr. Girardau has extensive experience in real estate and the development and construction industry, including many years spent as President and General Manager - Construction Division of Cascade Group and Vice-President - Cascade Development Corporation, which developed and constructed many major projects in Alberta and British Columbia.

Real estate activity in Calgary and Alberta continues to be very strong and will remain this way for the foreseeable future. Parton Capital Inc. intends to develop smaller, quality projects to benefit from this confidence in the Albertan economy while prudently managing its financial exposure.

Respectfully submitted

Glen Harper
Chairman of the Board

BOARD OF DIRECTOR'S REPORT

The Board of Directors extends a welcome to all Parton Capital Inc. shareholders. The preceding page of this Annual Report describe your Company's growth and progress over the last year. We hope this information helped to give you a comprehensive overview of your Company.

The Board of Directors of Parton Capital Inc. confirms that the Annual Report has been prepared and presented by the Board of Directors of Parton Capital Inc. and all information included in the report, including the financial statements, has been approved by the Board.

The Board also confirms that the financial statements in this Annual Report have been prepared by the Management in accordance with generally accepted accounting principles. Other financial information in this report is consistent with the financial statements. Our auditors, KPMG, Chartered Accountants, are responsible for auditing the financial statements and for giving an opinion on them.

KPMG
Chartered Accountants

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Parton Capital Inc. (formerly International Inter-Link Inc.) as at February 28, 1998 and 1997 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at February 28, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada
March 25, 1998

Member Firm of
KPMG International

PARTON CAPITAL INC.

(formerly International Inter-Link Inc.)
Consolidated Balance Sheets

February 28, 1998 and 1997

	1998	1997
Assets		
Cash	$ 338,452	$ 274,301
Due from related party (note 7(b))	17,964	8,660
Other assets (note 7(a))	5,428	69,298
Investment (quoted market value - $233,142; 1997 - $1,000,000) (note 3)	29,143	50,000
Condominium projects (note 4)	258,809	–
	$ 649,796	$ 402,259
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	$ 4,541	$ 13,902
Long-term debt (note 5)	150,000	150,000
	154,541	163,902
Shareholders' equity:		
Capital stock (note 6)	5,013,948	4,999,548
Deficit	(4,518,693)	(4,761,191)
	495,255	238,357
Commitments and subsequent events (note 4)		
	$ 649,796	$ 402,259

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

PARTON CAPITAL INC.

(formerly International Inter-Link Inc.)
Consolidated Statements of Operations and Deficit

Years ended February 28, 1998 and 1997

	1998	1997
Revenue:		
Interest	$ 11,697	$ 2,929
Gain on disposal of investments	309,012	–
	320,709	2,929
Expenses:		
General and administrative	63,211	33,344
Interest on long-term debt	15,000	8,342
	78,211	41,686
Income (loss) from continuing operations	242,498	(38,757)
Discontinued operations (note 7)	–	75,561
Net income	242,498	36,804
Deficit, beginning of year	(4,761,191)	(4,797,995)
Deficit, end of year	$(4,518,693)	$(4,761,191)
Earnings (loss) per share (note 9):		
Basic:		
Continuing operations	$ 0.046	$ (0.008)
Discontinued operations	$ –	$ 0.015
Fully diluted:		
Continuing operations	$ 0.038	$ (0.008)
Discontinued operations	$ –	$ 0.015

See accompanying notes to consolidated financial statements.

PARTON CAPITAL INC.

(formerly International Inter-Link Inc.)
Consolidated Statements of Changes in Financial Position

Years ended February 28, 1998 and 1997

	1998	1997
Cash provided by (used in):		
Operations:		
Income (loss) from continuing operations	$ 242,498	$ (38,757)
Gain on disposal of investments	(309,012)	–
Gain on disposal of capital assets	(3,544)	–
	(70,058)	(38,757)
Change in non-cash operating working capital	30,428	(26,212)
	(39,630)	(64,969)
Discontinued operations (note 7)	–	75,561
Depreciation	–	12,614
Write-off of capital assets	–	13,606
	–	101,781
	(39,630)	36,812
Financing:		
Common Shares	14,400	31,984
Long-term debt	–	150,000
	14,400	181,984
Investments:		
Sale of investments	329,869	–
Condominium projects	(258,809)	–
Sale of other assets	19,184	11,427
Other assets	(863)	(416)
	89,381	11,011
Increase in cash	64,151	229,807
Cash, beginning of year	274,301	44,494
Cash, end of year	$ 338,452	$ 274,301

See accompanying notes to consolidated financial statements.

PARTON CAPITAL INC.

(formerly International Inter-Link Inc.)
Notes to Consolidated Financial Statements

Years ended February 28, 1998 and 1997

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1. General:

Parton Capital Inc. (the "Corporation") was originally incorporated on May 14, 1987 under the Alberta Business Corporations Act. In conjunction with the discontinuance of the advertising and programming operations (note 7), on September 3, 1997 the Corporation changed its name from International Inter-Link Inc. to Parton Capital Inc. and its principal business activity to the acquisition and development of real estate.

2. Significant accounting policies:

(a) Basis of presentation:

The Corporation's accounting policies and its standards of financial disclosure are in accordance with the recommendations of the Canadian Institute of Chartered Accountants and The Canadian Institute of Public Real Estate Companies.

(b) Principles of consolidation:

The consolidated financial statements include the accounts of Parton Capital Inc. and its wholly-owned subsidiaries, Inter-Link Systems Inc., I.L.S. Asia Limited and Inter-Link Licensing Inc.

(c) Long-term investments:

Long-term investments are accounted for using the cost method and are recorded at the lower of cost and market value.

(d) Condominium projects:

Condominium projects include all initial acquisition costs, property taxes, development fees, leasing fees, financing fees, interest charges and other direct costs. No depreciation will be recorded on condominium properties held for resale.

(e) Revenue recognition:

Revenue from the sale of residential condominium units will be recognized when the purchasers become entitled to occupancy and arrangements for payment of the sale proceeds have been finalized.

(f) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Significant accounting policies (continued):

(g) Financial instruments:

The carrying values of the Corporation's monetary assets and liabilities approximate their fair values due to the short-term nature of the instruments and the interest rates therein.

(h) Comparative figures:

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

3. Investment:

The investment in 291,427 (1997 - 500,000) common shares of Canyon Creek Food Company Ltd. represents approximately 2% (1997 - 4%) of Canyon Creek's outstanding common shares at February 28, 1998. Accordingly, this investment is accounted for using the cost method.

4. Condominium projects and subsequent events:

Deposits on condominium projects	$ 225,000
Development costs	33,809
	$ 258,809

During 1998, the Corporation entered into two agreements to acquire properties in Calgary, Alberta for residential condominium development.

(a) Land acquisition:

The Corporation made an initial deposit of $25,000 during the year and paid $195,000, being the balance of the purchase price, subsequent to February 28, 1998.

(b) Apartment building:

During the year, the Corporation made an initial deposit of $200,000 on a total purchase price of $3,296,233. The apartment building consists of 57 units which will be converted to residential condominium units for resale. The purchase is conditional upon the Corporation obtaining financing prior to the closing date of May 1, 1998.

5. Long-term debt:

Long-term debt consists of debentures which are convertible into Common Shares at a price of $0.10 per share. The debentures bear interest at 10% payable semi-annually and are due August 12, 2001. A floating charge debenture covering all of the corporate assets is provided as security. Directors and officers of the Corporation hold $50,000 of the outstanding debentures.

6. Capital stock:

(a) Authorized:

Unlimited number of Common Shares

Unlimited number of non-voting Common Shares

Unlimited number of Preferred Shares

(b) Common Shares issued:

	Number of shares	Stated value
Balance, February 29, 1996	4,924,751	$ 4,967,564
Issued upon exercise of options	341,000	34,100
Share issue costs	–	(2,116)
Balance, February 28, 1997	5,265,751	4,999,548
Issued upon exercise of options	151,000	15,100
Share issue costs	–	(700)
Balance, February 28, 1998	5,417,751	$ 5,013,948

The legal stated capital of the Company is $1,573,710 in excess of the stated value of the Common Shares.

(c) Common Shares reserved:

As at February 28, 1998 the Corporation has 540,000 Common Shares reserved for the exercise of stock options at $0.25 per Common Share with an expiry date of January 19, 2003 and 1,500,000 Common Shares reserved for the conversion of the 10% convertible debentures at $0.10 per share to August 12, 2001.

7. Related party transactions and discontinued operations:

(a) Included in other assets in 1997 is a deposit of $50,000 which was returned to the Corporation in 1998.

(b) The Corporation had established an alliance with a large carrier in Las Vegas to provide advertising and programming in the form of "On-Board Video Advertisement" and exterior advertising on the carrier's vehicles. In December 1996 the carrier ceased operations and the Corporation wound-up the advertising and programming operations. All assets and liabilities related to the advertising and programming operations were transferred to Inter-Link Media Inc., a company in which a former director and officer has a non-controlling interest. The amount due from related party at February 28, 1998 of $17,964 (US $13,209) (1997 - $8,660 (US $6,246)) is due from Inter-Link Media Inc.

The results of discontinued operations during the year ended February 28, 1997 are as follows:

Sales	$ 305,787
Cost of goods sold	303,298
	2,489
Expenses	174,116
Loss before undernoted item	(171,627)
Proceeds on settlement of lawsuit	247,188
Net income from discontinued operations	$ 75,561

The proceeds on settlement of a lawsuit relate to amounts due from a major customer from the fiscal year ended February 28, 1991.

8. Income taxes:

The provision for income tax differs from the result which would have been obtained by applying the combined Federal and Provincial income tax rate of 44.6% to the Corporation's net earnings before income taxes. The difference results from the following items:

	1998	1997
Expected tax expense	$ 108,200	$ 16,400
Non-taxable portion of gains	(34,500)	–
Utilization of loss carry-forward amounts	(73,700)	(16,400)
Provision for income taxes	$ –	$ –

8. Income taxes (continued):

The Corporation has $3,200,000 in operating losses available for deduction against future income, most of which expire in 1999. Revenue Canada has alleged that $2,911,000 of these losses are capital losses rather than operating losses. The Corporation will not pursue a determination of this issue until such time as it anticipates utilizing these losses. The potential future benefit of these losses has not been recognized in the financial statements.

9. Earnings (loss) per share:

Earnings (loss) per share is calculated using the weighted average number of Common Shares outstanding during the year. The weighted average number of shares outstanding for 1998 was 5,317,793 for basic and 6,885,293 for fully-diluted (1997 - 5,154,935).

PARTON CAPITAL INC. - CORPORATE INFORMATION

HEAD OFFICE

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OFFICERS

Ronald S. Girardau	President & C.O.O.
G.A. James Devonshire	Chief Executive Officer
Robert J. Lemmon	Chief Financial Officer
Pia von Atzigen	Secretary

DIRECTORS

G.A. James Devonshire	(1) (2)
David B. Gerke	(1) (2)
Glen H. Harper	(2)
Malcolm A. Burne	(1)

(1) Member Audit Committee
(2) Member Executive Committee

AUDITORS

KPMG
1200, 205 - 5th Avenue S.W.
Calgary, Alberta T2P 1E7

TRANSFER AGENT & REGISTRAR

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LISTED TRADING SYMBOL

Alberta Stock Exchange
PNC

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BANK

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